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AUDIT OF
USAID/GUATEMALA'S
PROGRAM DEVELOPMENT AND SUPPORT FUNDS

Audit Report No. 1-520-88-10
January 22, 1988

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January 22, 1988

MEMORANDUM

TO : Anthony J. Cauterucci, Director, USAID/Guatemala

FROM : Coinage N. Gothard, RIG/A/T

SUBJECT: Audit of USAID/Guatemala's Program Development and Support Funds

The Office of the Regional Inspector General for Audit/Tegucigalpa has completed its audit of USAID/Guatemala's Program Development and Support Funds. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report (See Appendix 1). The report contains two recommendations. Recommendation No. 1(b) is considered closed and requires no further action. Recommendations Part 1(a) and No. 2 are considered resolved and will be closed upon completion of planned or promised actions. Please advise me within 30 days of any additional actions taken to implement Recommendation 1(a) and Recommendation No. 2.

I appreciate the cooperation and courtesy extended to my staff during the audit.

EXECUTIVE SUMMARY

Program Development and Support funding was designed to finance project identification and development activities that are necessary to get a project underway before the project agreement is signed. It can also be used to fund program evaluations, sector assessments, and other special studies. To provide Missions and representational offices with clarification of what Program Development and Support funding should be used for, the Latin American and Caribbean Bureau issued its first guidelines categorizing appropriate uses of these funds on April 7, 1987.

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a compliance audit of USAID/Guatemala's use of Program Development and Support funding. The objectives of the audit were to determine whether USAID/Guatemala had programmed Program Development and Support funding for activities and projects that were in compliance with Agency and Bureau guidelines. The audit also evaluated the adequacy of administrative controls over the programming of Program Development and Support funding.

The audit found that approximately one-third of USAID/Guatemala's Program Development and Support funding was programmed for activities and projects that were not in compliance with Agency and Bureau guidelines, and that Mission administrative controls over the programming of this funding needed to be improved.

Early in the audit, USAID/Guatemala Program Office staff took prompt action and deleted the programming of 8 of the 11 activities identified by the audit team as inappropriate uses of Program Development and Support funding. The other activities were in compliance with new, more lenient guidance issued by the Latin America and Caribbean Bureau on August 13, 1987. Mission officials stated that their policy was to be in full compliance with the Bureau's policy statement. They added that, due to the Agency's broad and obscure definition of Program Development and Support activities, previous funding had been seen as a flexible funding source that could be used to finance a variety of unforeseen requirements.

The audit found that over $750,000 of the Mission's $200,000 in Program Development and Support programmed funding was reserved or obligated for activities that were not appropriate or in compliance with Agency and LAC/Bureau funding criteria. Also, significant amounts of funding that was intended to be obligated and then liquidated during a 12-month period was brought forward into future fiscal years and not liquidated until 12 to 36 months after the date of obligation. In addition, Mission procedures to monitor year-end Program Development and Support spending practices and to program and reconcile programmed funds needed improvement.

Program Development and Support funding was generally intended to fund short-term project identification, development, and design activities that occur before the signing of the project agreement as well as certain post-implementation activity, such as evaluations. The obligation of such funds was to be fully liquidated within one year. A review of USAID/Guatemala's proposed and on-going Program Development and Support

activities indicated that approximately one-third of the funds was reserved or obligated for activities that were not appropriate, as defined by interim Bureau policy guidelines. Also, significant amounts of prior year Program Development and Support obligations were carried forward into subsequent fiscal years and liquidated 12 to 36 months after their dates of obligation. Past vague Agency guidance had allowed for overly broad interpretations of what funding could be used for, and resulted in unintended uses. In light of decreasing operating expense budgets, Program Development and Support funding also helped finance increased Mission staffing needed to manage a growing Mission portfolio. The Mission's use of Program Development and Support funding to supplement Mission operating expense budgets and project financial plans had effectively allowed the Mission to exceed Agency and Congressionally approved budget limitations. The report recommended that Mission officials review the appropriateness of Program Development and Support funded activities, change the funding of 11 programmed and on-going Program Development and Support activities, and issue a Mission Order to provide instruction to Mission personnel for use of funding. The Mission agreed with this recommendation and requested closure of section 1(b) because the 11 questioned activities had either been deleted from programming or are now in compliance with more liberal guidance issued by the Latin America and Caribbean Bureau on August 13, 1987. Part 1(b) of the recommendation is closed upon issuance of the report.

No USAID/Guatemala Mission Order existed regarding procedures to select and track the Mission's Program Development and Support activities and expenditures. Although the Mission Program Office's intended procedure was to select Program Development and Support activities from formal requests submitted by Mission branch chiefs, funding was sometimes reserved and programmed for activities that were approved only on an informal basis, without written justifications of how the proposed activity was appropriate or a description of its planned purpose and output. Therefore, the purposes and outputs of these activities were confused and sometimes misinterpreted. In addition, Program Office personnel responsible for monitoring the Mission's Program Development and Support account were not sure about the financial status of many of the programmed activities because they were not always provided copies of the activities' commitment and obligation documents and because a reconciliation was not prepared of their status reports with the official records and the Controller's financial reports. Since a reconciliation of the different data was not made, Program Office personnel that scheduled new Mission activities did not have accurate financial information about the availability of programmed funds to finance new activities. The report recommended that USAID/Guatemala prescribe administrative procedures to program and monitor Program Development and Support activities and reconcile these activities and the program funding data with official Mission records. The Mission agreed with the recommendation, which will be closed upon receipt of an appropriate Mission Order.

Office of the Inspector General

AUDIT OF
USAID/GUATEMALA'S
PROGRAM DEVELOPMENT AND SUPPORT FUNDS

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AUDIT OF
USAID/GUATEMALA'S
PROGRAM DEVELOPMENT AND SUPPORT FUND

PART I - INTRODUCTION

A. Background

Program Development and Support (PD&S) funds are portions of Development Assistance appropriations that are alloted to each geographic bureau by AID/Washington. Within the Bureau for Latin America and the Caribbean (LAC/Bureau), PD&S funds are distributed to A.I.D. field Missions through on-going PD&S projects. Each Mission is programmed one PD&S project for each corresponding Development Assistance account: Agriculture, Rural Development and Nutrition, Population Planning, Selected Development Activities, etc.

Program Development and Support funding was designed to finance project identification and development activities that are necessary to get a project underway before the project agreement is signed. PD&S funding can also be used to fund program evaluations, sector assessments, and other special studies; however, it is not to be used for costs associated with the normal implementation of a project or for operating expenses of the Missions.

Program Development and Support activities are defined in A.I.D. Handbook 18, Appendix D, as those activities whose purpose is the identification, design, and evaluation of programs or projects where such activities cannot be easily or appropriately charged to the individual project activity. The imprecise definition of eligible PD&S activities has led to a variety of interpretations of the use of PD&S funding.

To provide Missions with clarification of the appropriate uses of PD&S funding, the Latin American and Caribbean (LAC) Bureau issued interim guidance on April 7, 1987 categorizing appropriate uses of PD&S funds. The LAC/Bureau's interim PD&S policy statement emphasized that funding was to be used for activities of a short-term nature, i.e. 12 months or less in duration, and that PD&S funds are not to be used as a substitute for other funding sources such as operating expense and project assistance funds. Since the issuance of our preliminary findings, the LAC Bureau issued on August 13, 1987 additional guidance and criteria on the uses of Program Development and Support funds, based on Mission comments.

B. Audit Objectives and Scope

The Office of the Regional Inspector General for Audit/Tegucigalpa performed a compliance audit of USAID/Guatemala's use of Program Development and Support funds. The audit was limited to currently obligated and proposed funding activities. The audit team made its review during the period May 29, 1987 through July 24, 1987 and reviewed USAID/Guatemala Program Development and Support activities that were on-going and proposed for Fiscal Year 1987. As of June 4, 1987, this

included approximately $2 million of the Mission's $2.2 million in programmed PD&S funding. In addition, the audit team made a limited review of Fiscal Year 1986 PD&S year-end obligations.

The objectives of the audit were to determine whether USAID/Guatemala had programmed Program Development and Support funding for activities and projects that were in compliance with Agency and Bureau guidelines, and to evaluate the adequacy of the administrative controls over the programming of such funding. The audit team's work included interviews and discussions with Mission officials and project contractors, a review of pertinent Mission project files, Program Development and Support activity files, programming reports and obligating documents.

The audit team's review of compliance and internal controls was limited to the findings of this report. The Mission's use and control of Program Development and Support funding had not been audited previously. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT OF
USAID/GUATEMALA'S
PROGRAM DEVELOPMENT AND SUPPORT FUND

PART II - RESULTS OF AUDIT

The audit found that approximately one-third of USAID/Guatemala's Program Development and Support (PD&S) funding was programmed for activities and projects that were not in compliance with Agency and Bureau PD&S guidelines, and that Mission administrative controls over the programming of PD&S funding needed to be improved.

Early in the audit, USAID/Guatemala Program Office staff took prompt action and deleted the programming of 8 of the 11 PD&S activities identified by the audit team as inappropriate uses of PD&S funding. The other activities were in compliance with new, more flexible guidance issued by the Latin American and Caribbean Bureau on August 13, 1987. Mission officials stated that their policy was to be in full compliance with the Bureau's PD&S policy statement. They added that, due to the Agency's broad and obscure definition of PD&S activities, previous PD&S funding had been seen as a flexible funding source that could be used to finance a variety of unforeseen requirements.

The audit found that over $750,000 of the Mission's $2,200,000 PD&S programmed funding was reserved or obligated for activities that were not PD&S-related or in compliance with Agency and LAC/Bureau funding criteria. Also, significant amounts of PD&S funding intended to finance short-term activities of a duration of 12 months or less was brought forward into future fiscal years and not liquidated until 12 to 36 months after the date of obligation. In addition, Mission procedures to monitor year-end PD&S spending practices and to program and reconcile PD&S programmed funds needed improvement.

The report recommends that Mission officials 1) review proposed and currently obligated PD&S activities for proper funding sources and halt PD&S funding of 11 activities that were identified during the audit as inappropriate uses of PD&S funding; 2) issue a Mission Order to provide appropriate instruction to Mission personnel on the use of PD&S funding; and 3) issue a Mission Order that prescribes administrative procedures to program and monitor PD&S activities and reconcile PD&S activities and related program funding data with official Mission records.

The Latin American and Caribbean Bureau cabled additional guidance on the use of Program Development and Support funds on August 13, 1987 after the exit conference with USAID/Guatemala officials. This guidance provided the Missions with more flexibility in determining appropriate uses of PD&S funding and a dollar limitation on such activities. Some of those activities we had previously identified as inappropriate based on the April 1987 guidance were considered appropriate under the new guidance, resulting in the closing of Recommendation 1(b) shown in the Findings and Recommendations section of this report.

A. Findings and Recommendations

1. Questionable Uses Were Made of Program Development and Support Funding

Program Development and Support (PD&S) funding was generally intended to fund short-term project identification, development, and design activities that occur before the signing of the project agreement as well as certain post-implementation activities, such as evaluations, for example. The obligation of such funds was to be fully liquidated within one year. A review of USAID/Guatemala's proposed and on-going PD&S activities indicated that approximately one-third of the Mission's programmed operating year budget was reserved or obligated for activities that were not PD&S-related, as defined by interim Bureau PD&S policy guidelines. Also, significant amounts of prior year PD&S obligations were carried forward into subsequent fiscal years and liquidated 12 to 36 months after their dates of obligation. Past vague PD&S guidance had allowed for overly broad interpretations of what PD&S funding could be used for, and resulted in unintended uses. In light of decreasing operating expense budgets, PD&S funding also helped finance increased Mission staffing to manage a growing project portfolio. The Mission's use of PD&S funding to supplement Mission operating expense budgets and project financial plans had effectively allowed the Mission to exceed Agency and Congressionally approved budget limitations.

Recommendation No. 1

We recommend that USAID/Guatemala:

a) perform a comprehensive review of obligated and proposed Program Development and Support activities to ensure they are in compliance with current Latin America and Caribbean Bureau policy, and provide the Regional Inspector General/Audit/Tegucigalpa with results of the review and any revisions made to the Mission's Program Development and Support Status Report; and

b) provide evidence that the 11 inappropriate on-going and proposed Program Development and Support activities were not funded with Program Development and Support funds subsequent to April 7, 1987, the effective date of the Bureau's Policy Statement.

Recommendation No. 2

We recommend that USAID/Guatemala issue a Mission Order providing detailed instructions on the use of Program Development and Support funds. The Mission Order should include procedures to review year-end Mission Program Development and Support proposals to verify that the activities meet the criteria as appropriate uses of Program Development and Support funds.

Discussion

Program Development and Support (PD&S) activities are defined in A.I.D. Handbook 18, Appendix D, as those activities whose purpose is the identification, design, and evaluation of programs or projects where such

activities cannot be easily or appropriately charged to the individual project or activity. This vague definition of eligible PD&S activities led to a variety of overly-broad interpretations of appropriate use of PD&S funds by LAC Bureau A.I.D. Missions.

To provide Missions with clarification of what PD&S funding should be used for, in April 1987 the Latin America and Caribbean (LAC) Bureau issued interim PD&S policy guidance that categorized appropriate uses of PD&S funds. (This PD&S policy statement along with additional A.I.D. evaluation and audit criteria is summarized in Appendix 2.)

Based on the criteria in the LAC Bureau policy guidance cable, USAID/Guatemala had approximately one-third of the Mission's PD&S programmed operating year budget reserved or obligated for activities that were clearly not PD&S related according to the April 1987 guidance. These activities and expenditures included planned funding of salary contracts for long-term Mission employees, a commodity purchase, and PD&S funds reserved and obligated to finance project evaluations and audits. PD&S obligations were carried forward into subsequent fiscal years and liquidated 12 to 36 months after their date of obligation. PD&S funds were also used to finance the Mission's increased staffing requirements. (See Exhibit 1 for a listing of questioned activities.)

Of the $2 million in budgeted PD&S funds reviewed by the audit team, over $750,000 in Mission approved PD&S funds were reserved or obligated for activities that should be appropriately funded with operating expense, trust fund, or project assistance funds.

For example, USAID/Guatemala contracted a U.S. Personal Service Contractor (PSC) on July 15, 1986 to work for a two-year period as an educational advisor with a Mission non-formal educational project. Among other duties, the contractor was responsible for monitoring the implementation of the project and performing most of the normal duties that a U.S. direct-hire project officer would perform, such as preparing implementation letters and obligation documents, arranging for participant training, and coordinating the purchase of project commodities. The contractor was also responsible for supervising "...the work of project consultants in the areas of administration, budgeting, [and] materials development...." Even though the duties listed in the contractor's statement of work were clearly within the classification of operating expenses contained in Handbook 18, or possibly attributable project expenses, as of July 24, 1987, PD&S funding of $107,577 was committed to finance the costs of the personal service contract and $82,509 was disbursed to pay salary and support payments.

Also, a PD&S-funded limited scope agreement was executed between USAID/Guatemala and the Government of Guatemala (GOG) on behalf of a GOG economic planning committee. Although the title of the activity was "Training Assistance Support", the agreement's primary purpose was to provide the Mission with funds to buy a personal computer system valued at $17,000 for the committee.

Project audits and evaluations as of June 4, 1987 accounted for over $400,000 of the Mission approved $2.2 million in programmed PD&S funds.

A review of these evaluations and audits indicated that 6 of the 14 programmed activities were project-specific evaluations and audits that were actually normal project monitoring requirements necessary for the implementation and post-implementation review of the project, and as such were appropriate project costs that should be financed with project funds. We found instances where PD&S funds were programmed as a project funding subsidy to finance project evaluations and audits that; a) were required and budgeted for in the project agreement, b) were not required nor budgeted for in the project agreement, or c) were required but not budgeted for in the project agreement.

The LAC Bureau's policy stresses that PD&S funds were intended to fund short-term (12 months or less) project development and design activities. An aging of PD&S activity obligations, disbursements, and unliquidated obligations for fiscal years 1983 through 1986 indicated that significant amounts of PD&S funding were carried forward into future fiscal years, and subsequently liquidated over a period of 12 to 36 months (See Exhibit 2). For example, in fiscal year 1985 USAID/Guatemala had a PD&S budget allowance of $1,330,000 with year-end obligations of $1,315,000. But of that $1,315,000 obligated balance, unliquidated obligations (undisbursed funds) of $1,078,000 were carried forward into fiscal year 1986, and unliquidated obligations of $391,000 were brought forward into fiscal year 1987. As of March 31, 1987 approximately $183,000 of fiscal year 1985 obligations were still outstanding and unliquidated. LAC Bureau policy guidance put into effect in April 1987 clearly stated that PD&S obligations are to be liquidated within 12 months of the date obligated.

A limited review of year-end PD&S spending for fiscal year 1986 found that, in at least one instance, a PD&S limited-scope agreement for $162,000 was signed on September 22, 1986 to obligate available year-end PD&S funding. As of July 13, 1987 the contract to perform the grant's largest activity, a $117,000 country-wide demographic study, had still not been awarded. A Mission official cited coordination problems and delays in awarding the contract as the primary reasons for the activity being behind schedule, and stated that the study should be completed by September 1987.

Finally, PD&S funds were also used to finance the Mission's increased staffing requirements. A review of USAID/Guatemala staffing patterns since September 30, 1982 indicated that Mission staffing levels increased dramatically from fiscal years 1982 through 1987, even though Mission operating expense budgets steadily declined. From fiscal year 1982 through 1987 Mission "on-board" staffing strength (i.e. U.S. direct-hires, Personal Services Contractors, foreign nationals, and employees detailed from other agencies) rose from a total of 52 employees to a June 1987 staffing strength of 145 (see Exhibits 3 and 4).

The increase in Mission staffing strength was primarily financed with the availability of host-country trust funds and local cost support, but PD&S funding also played a part. Mission Controller personnel stated that PD&S funds had been used in the past to help finance the increased Mission staff and other requirements when other funding sources were not available. For example, at the end of calendar year 1986 Mission Trust

Funds were depleted and new funds were not to be available until several months later, after a delayed Economic Support Fund host country agreement was finally signed. In May 1987, Program Office personnel cited USAID/Guatemala's increased portfolio demands and scarce Operating Expense (OE) resources as reasons why greater flexibility was needed with PD&S funding other than that which was allowed by the Bureau's PD&S policy statement. Program Office personnel reported that, "...OE funds [were] not always ... available in sufficient amounts at the right time to meet the Mission's needs - forcing the Mission to use PD&S funds on an interim basis until sufficient OE [was] available." An earlier Program Office memorandum, in November 1985, had raised an issue with the Mission's practice of paying OE expenses with PD&S funding in order to reduce demands on the Mission's operating expense budget.

No formal guidance however, was issued by the LAC/Bureau on appropriate PD&S uses until April 1987, which resulted in USAID/Guatemala's interpreting allowable uses of PD&S funding in various ways. For example, the Program Office advised Mission personnel that PD&S funds could be used to cover critical needs that could not be covered by other funds. Controller personnel saw PD&S funding as a flexible funding device to finance unforeseen requirements, including project activities. Mission personnel stated that, prior to the specific guidance, determining what was a genuine PD&S activity was a matter of interpretation and PD&S activities were often selected on an informal basis. Mission staff in charge of scheduling PD&S activities stated that they did not have a clear idea about what constituted an appropriate activity prior to the Bureau's April 1987 PD&S policy statement. Mission staff agreed that the Agency should develop clear guidance describing the appropriate activities for PD&S funds.

By using PD&S funds to supplement Mission operating expense budgets and project assistance financial plans, less PD&S funding was available for intended purposes (i.e. short-term project development and design activities).

Without a clear idea about what constituted an appropriate PD&S activity, USAID/Guatemala used informal guidance received at regional conferences and from conversations with LAC/Bureau personnel in Washington, D.C. as a basis to use PD&S funding as a flexible funding source. In our opinion, this view of PD&S funding was given greater emphasis as the Mission's project portfolio expanded and its operating expense budgets decreased (See Exhibit 3).

On August 13, 1987, the Latin American and Caribbean Bureau issued additional PD&S guidance that was more flexible with respect to the use and dollar limitations of PD&S funding. The Mission had deleted the programming of those activities identified during the audit which did not comply with the new, more lenient guidance. Accordingly, Recommendation No. 1(b) is closed on the date of issuance of this report.

Management Comments

The USAID/Guatemala Mission agreed with our recommendation that they make a comprehensive review of their on-going and planned PD&S activities to

ensure that all these activities were PD&S in nature and were in compliance with latest Latin America and Caribbean Bureau policy guidance. Concerning Recommendation No. 1(b), the Mission requested closure of this portion of the recommendation because all eleven questioned activities were either deleted from programming or are now in compliance with the latest Latin America and Caribbean PD&S guidance issued on August 13, 1987. They also fully agreed with Recommendation No. 2 that suggested issuance of a Mission Order which would provide detailed instructions to Mission personnel about the proper utilization of PD&S funding. The Mission requested closure of this recommendation based on a Mission Order on PD&S Utilization and Management attached to its Management Comments sent to the Regional Inspector General/Audit/Tegucigalpa on January 4, 1988.

Office of Inspector General Comments

The Office of the Inspector General considers Recommendation No. 1(b) closed upon issuance of this report. Recommendation 1(a) will remain open until the USAID/Guatemala Mission formally advises the Regional Inspector General/Audit/Tegucigalpa of the results of its review of programmed PD&S activities. Recommendation No. 2 will remain open because the Mission Order attached to USAID/Guatemala's Management Comments sent on January 4, 1988 related to Management of Local Currency Funds rather than Program Development and Support funding. Points of fact raised by USAID/Guatemala have been reviewed, and revisions were made where appropriate. USAID/Guatemala officials were afforded full access to audit workpapers for detailed information about audit interviews, fund data and other source documentation used in the audit. A full text of USAID/Guatemala's Management Comments is shown in Appendix 1.

2. Administrative Controls over Program Development and Support Funded Activities Needed to be Strengthened

No USAID/Guatemala Mission Order existed regarding procedures to select and track the Mission's program development and support activities and expenditures. Although the Mission Program Office's intended procedure was to select PD&S activities from formal requests submitted by senior Mission officers, PD&S funding was sometimes reserved and programmed for activities that were approved only on an informal basis, without written justifications as to how the proposed activity was PD&S-related or a description of its planned purpose and output. Therefore, the purposes and outputs of these PD&S activities were confused and sometimes misinterpreted. In addition, Program Office personnel responsible for monitoring the Mission's PD&S account were not sure about the financial status of many of the programmed PD&S activities because they were not always provided copies of the activities' commitment and obligation documents and because a reconciliation was not prepared of their status reports with the official PD&S records and the Controller's financial reports. Since a reconciliation of the different data was not made, Program Office personnel that scheduled new Mission PD&S activities did not have accurate financial information about the availability of programmed funds to finance new activities.

Recommendation No. 3

We recommend that USAID/Guatemala issue a Mission Order:

a) to prescribe programming procedures to select and monitor Program Development and Support activities; the Order should contain guidance that directs Mission personnel to provide written justifications for their proposed Program Development and Support requests (see Recommendation Number 2); and

b) to require Program Office Personnel to reconcile on a monthly basis the financial information contained in the Program Development and Support Status Report with the Program Development and Support data shown on the Controller Office's Mission Accounting and Control System Reports.

Discussion

In the absence of formal Mission Order guidance, there were problems with the programming and monitoring of PD&S funds.

Informal PD&S Programming Procedures - As of July 24, 1987, USAID/Guatemala had not issued a Mission Order to prescribe procedures to select and track PD&S activities and expenditures. The normal operating procedure of the Mission's Program Office, which was responsible for programming and monitoring PD&S activities, was to select proposed PD&S activities from formal requests submitted by branch chiefs. However, PD&S funds were sometimes reserved and programmed for PD&S activities which were approved informally, without a review of a written request that would explain why the PD&S activity was needed, or how its purpose and output was PD&S-related. The Mission official stated that, prior

to issuance of the Bureau's PD&S guidance in April 1987, PD&S funding was sometimes reserved and programmed for activities that were approved based on conversations between the Program Office and the requesting Division Chiefs, with the expectation that written request of the activity would be submitted to the Program Office at a later date. However, the audit team's review of PD&S activities shown on the June 4, 1987 PD&S Status Report and pertinent Mission PD&S files indicated that a written description and justification for the activities was not always submitted. For example, a supposedly cognizant Mission official did not know why several of the activities shown on the report had been approved or how they were PD&S-related. Written justifications for the activities could not be found in Mission PD&S files. Program Office personnel cited the lack of Agency guidance regarding PD&S and programming procedures as a reason why the activities were informally approved and programmed. As a result, there had been a tendency in the past to misinterpret and confuse the purposes and outputs of PD&S activities that were only informally approved. They agreed that future PD&S activity requests should be substantiated with written descriptions and justifications of the activities.

Reconciliation Needed - Mission management was not able to effectively plan and manage the proposed and active projects under PD&S due to records not being reconciled between the Program Office and the Controller's Office. Two Mission reporting systems monitor the status of USAID/Guatemala PD&S Funding. The Program Office's Program Development and Support (PD&S) Status Report tracks approved budget allowances and obligation amounts of scheduled and on-going PD&S activities. The Controller Office's Obligations and Open Reservation Status Report is generated by USAID/Guatemala's Mission Accounting and Control System (MACS) and reflects official Mission PD&S financial information obtained from Controller records and obligating documents. The two systems report different data that must be reconciled and analyzed by decision-makers to ensure accurate programming of Mission PD&S activities and funding amounts.

A review of PD&S programming procedures indicated that the Program Office did not have an accurate knowledge of the financial status of many of the activities it was monitoring because: a) the Program Office was not always provided copies of PD&S activity commitment and obligation documents, and b) Program Office personnel did not perform a reconciliation of the financial information shown on their PD&S Status Report with the PD&S financial information shown on the Controller Office's MACS Report. Program Office personnel stated that a reconciliation of the information on the two reports was not made due to other workload requirements and the difficulty in matching and comparing the information shown on the respective reports. For example, the title of an activity shown on the PD&S Status Report was sometimes different from the title of the activity shown on the Controller's reports, making reconciliations of the different data very time-consuming.

Both the USAID/Guatemala Program and Controller's Offices recognized the importance of reconciling the data on the two reports so that the Mission's available budget allowance could be accurately computed, and funding for new PD&S requirements could be programmed within budget

allowances. To ease the reconciliation process of the reports, program office personnel stated that, with the proper assistance, they would adapt and reformat their PD&S Status Report to correspond, as much as possible, to the reporting criteria shown in the MACS Reports. The Controller's Office advised that such assistance would be provided.

Management Comments

USAID/Guatemala fully agreed with Recommendation No. 3, which recommended issuance of a USAID/Guatemala Mission Order to provide Mission personnel instructions about the proper utilization of PD&S funding and management of PD&S resources. In a January 4, 1988 Memorandum to the Regional Inspector General for Audit/Tegucigalpa, the USAID/Guatemala Mission stated that it had enclosed a Mission Order (Referenced as Attachment I) dealing with PD&S utilization and management with its submitted management comments, and requested closure of Recommendation No. 3. (The full text of USAID/Guatemala's Management Comments is shown in Appendix 1.)

Office of Inspector General Comments

A review of the Mission Order attached to the Janaury 4, 1988 Memorandum indicated that it pertained to the Management of Local Currency rather than Program Development Support funding. Recommendation No. 3 remains open until the Regional Inspector General for Audit/Tegucigalpa is provided a copy of USAID/Guatemala's Mission Order on PD&S Funding, and that this Mission Order is found to comply with the latest Agency and LAC/Bureau PD&S policy guidance. Points of fact raised by the Mission have been reviewed and revisions were made where appropriate.

B. Compliance and Internal Control

1. Compliance

The audit disclosed instances of temporary non-compliance with PD&S policy guidance issued and made effective by the Latin American and Caribbean Bureau on April 7, 1987. As of June 4, 1987, USAID/Guatemala had programmed one-third of its PD&S operating year budget for activities that were not PD&S related or in accordance with Bureau and Agency guidelines.

2. Internal Control

Two internal control weaknesses were identified during the audit. Both deficiencies are discussed in Finding 2 of this report, and were primarily caused by the lack of a Mission Order that might otherwise have prescribed proper procedures to select, track, and reconcile PD&S programmed funds. Due to the absence of this Mission Order, PD&S activities were sometimes selected informally without written justifications of how the activity was PD&S-related or a description of the intended purpose and output activity. In addition, Mission management was not able to effectively plan and manage proposed and on-going PD&S activities within available financial resources because PD&S obligations and commitment records were incomplete, and a reconciliation was not made of financial information shown on the Program Office's PD&S Status Report with official PD&S data reported on the Controller Offices MACS Reports.

AUDIT OF USAID/GUATEMALA'S
PROGRAM
DEVELOPMENT AND SUPPORT FUNDING

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

QUESTIONED PD&S ACTIVITIES

	PROGRAM OFFICE DELETED PD&S ACTIVITIES	MISSION APPROVED AMOUNT
1.	Impact Evaluation of Project No. 520-0248, Rural Electrification	$ 40,000
2.	Final Evaluation for Project No. 520-0281, Integrated Non-Formal Education	$ 33,000
3.	Project Evaluation for Altiplano Higher Education	$ 10,000
4.	Audit of Small Farmer Diversification Systems Project No. 520-0255	$ 10,000
5.	Support Evaluation of Project No. 520-0288, Expansion of Family Planning Services	$ 21,394
	Subtotal	$114,394
6.	Education Adviser (PSC)	$ 97,000
7.	Public Health Adviser (FSN)	$ 17,000
8.	Credit Promoter	$ 15,000
	Subtotal 1/	$243,394
	OTHER QUESTIONED ACTIVITIES	
9.	CAFETS (multi-sector education program) participation	$500,000
10.	Training Assistance (Purchase of a Computer)	$ 16,578
11.	Audit of Non-Formal Education Sector Project No. 520-0281	$ 8,780
	Subtotal	$525,358
	Total	$768,752

1/ Denotes Projects and Activities agreed by the Project Office to be deleted.

SUMMARY OF PD&S FUNDING UTILIZATION
BY FISCAL YEAR WITH AGING SCHEDULE
AS OF MARCH 31, 1987

Status of Fiscal Year (FY) 1984 PD&S Funding:

Fiscal Year	Budget Allowance (B/A)	Obligated	Percentage of B/A Obligated	Amount Disbursed	PD&S Unliquidated Obligated Bal. carried Fwd. to Next FY	Obligation Aging Schedule
FY 84	$550,000 1/	$550,000	100%	$117,000	$433,000	-----
*Fwd To: FY 85		(45,000) 2/		224,000	164,000	12 months 3/
*Fwd To: FY 86		(17,000)		130,000	17,000	24 months
*Fwd To: FY 87		(7,000)		10,000	-0-	36 months
(As of 3/01/87)						

Status of Fiscal Year 1985 PD&S Funding:

FY 85	$1,330,000	$1,315,000	98.9%	$237,000	$1,078,000	-----
*Fwd To: FY 86		(28,000)		659,000	391,000	12 months 4/
*Fwd To: FY 87		(20,000)		188,000	183,000	24 months
(As of 3/31/87)						

Status of Fiscal Year 1986 PD&S Funding:

FY 86	$1,400,000	$1,357,000	96.9%	$294,000	$1,063,000	-----
*Fwd To: FY 87		(33,000)		502,000	528,000	6 months 5/

1/ Financial data was provided by USAID/Guatemala, Controller's Office.
2/ Denotes Obligations.
3/ Assumes that last obligation was made on September 30, 1984.
4/ Assumes that last obligation was made on September 30, 1985.
5/ Assumes that last obligation was made on September 30, 1986.

* Denotes Forward

EXHIBIT 2

EXHIBIT 3

MISSION OPERATING EXPENSE BUDGET
ALLOWANCES AND CUMULATIVE OPERATING EXPENSE OBLIGATIONS

FY	OPERATING EXPENSE BUDGET ALLOWANCE	CUMULATIVE OPERATING EXPENSE OBLIGATIONS
83	$1,584,400 1/	$1,584,400
84	$1,466,400 1/ 2/	$1,466,400
85	$1,495,000 1/ 2/	$1,495,000
86	$ 877,000 3/	$ 877,000

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1) A supplemental local cost support appropriation of $201,000 was allocated to fund certain Mission local cost operating expenses for Fiscal years 1984 and 1985.

2) Decreases in Mission Operating Expense Budget Allowances were also due in part to estimated payments of certain Mission local costs with devalued quetzales.

3) Does not include host country trust funding of $350,000 and local cost support of $147,000 that was available to pay for Mission operating expenses which were of a local cost nature.

EXHIBIT 4

MISSION STAFFING LEVELS

	AID CEILING 9-30-79	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987
Permanent U.S. Direct Hire (Includes International Development Interns)	16	13	13	15	20	20	18
US Personal Services Contractors	N/A	1	1	2	5	2	4
Foreign National Direct Hire	36	33	33	33	27	27	37
Long-Term Foreign National Direct Hire	N/A	5	39	43	44	44	80
Participating Agency Services Agreement	N/A	0	0	0	4	4	6
Total	52	52	86	93	100	97	145
Fiscal Year Net Changes	---	-0-	+34	+7	+7	+1	+52
Total Net Changes							+93

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UNITED STATES GOVERNMENT

Memorandum

UNCLASSIFIED

TO : RIG/A/T, Coinage N. Gothard, Jr.

DATE: January 4, 1988

FROM : Anthony J. Cauterucci
Director, USAID/Guatemala

SUBJECT: Draft Audit Report of USAID/Guatemala's Program Development and Support Funds (No. 1-88-520)

Thank you for the draft report of your audit findings of Program Development and Support funded activities. The officer charged with responsibility for the PD&S operation was out of country for several weeks due to a family emergency. Because of this, we are late in submitting our response to you.

We would like to offer the following comments on the draft report. They are of both a general and specific nature and are presented below as requested corrections in the draft report.

In addition, with regard to the draft report's recommendations, the Mission would like to request the following:

-- With regard to Recommendation No. 1 (a), the Mission agrees to carry out such a review and provide the results of the review to the Regional Inspector General/Audit/Tegucigalpa;

-- With regard to Recommendation No. 1 (b), the Mission requests that this part of Recommendation No. 1 be closed since the Auditors have indicated that all eleven activities identified by the audit team have either been deleted or are in compliance with the latest LAC Bureau PD&S Guidance dated 8/13/87;

-- With regard to Recommendation No. 2, the Mission has issued a Mission Order on the utilization and management of PD&S funds effective 10/22/87, a copy of which is Attachment I, and requests that this recommendation be closed.

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

GENERAL

First, the report is remiss in not providing any historical or background information on the nature/extent of PD&S guidance that existed in earlier years (especially during the period 1984 - 1986) as well as the actions carried out by the Mission during this time prior to the most recent LAC Bureau PD&S guidance. The draft report should first indicate that general and informal guidance was available from the LAC Bureau on the overall management of PD&S funds (previously, even though there was room for improvement). However, it should be pointed out that the Mission feels that in no case did the lack of more formal LAC Bureau guidance and the Bureau's delegation of maximum flexibility to the Mission in the use of such funds lead to any unintended uses of such funds. Even more important, the draft report needs to provide the Mission with full credit for actions that it initiated on its own with respect to the proper management of PD&S funds. These actions consisted of the following:

-- Outlining Mission guidance on the utilization, management, authorization and reporting of PD&S funds, e.g., dealing with the applicable uses of PD&S funds, scope of PD&S activities, procedures to be employed, etc. (see Program Office's memorandum of 10/14/86 as Attachment II). The Mission even made special efforts to carefully delineate which personal service contractor costs should be charged to program or administrative costs and implemented this in a very successful manner (see Program Office's attached memorandum of 11/19/86 as Attachment III).

-- Holding periodic meetings during the year (at least once per month) to review the status of PD&S requests and funds needed to support them to ensure they were in accordance with Mission guidance regarding the applicable use of PD&S funds.

-- Making continuous efforts to obtain the latest financial status of PD&S activities by obtaining copies of documents that reserved and obligated funds, as well as performing periodic reconciliations of financial information shown on the Con-

troller's MACS reports and Program Office's PD&S status reports. Due to these and other efforts, Program Office personnel felt they generally had accurate financial information on the status of all PD&S activities (even in the absence of a formal review and tracking system), including the availability of funds to finance new activities.

Based on these actions (and subsequent discussions with the Mission personnel), everyone in our Mission had a good understanding of what constituted an appropriate PD&S activity. The draft report should provide such background information, give the Mission credit for actions it has taken on its own, and reflect the presence of such an understanding on the part of the staff.

Secondly, the Mission did not administratively reserve or obligate one third of its planned $2.2 million in PD&S funds during FY 1987 for activities that were inappropriate or which were not in compliance with Agency and LAC Bureau guidance. All of the eight items identified initially (June, 1987) by the audit team as inappropriate (see Exhibit I) were not administrative reservations or obligations but represented initial plans set forth in the Program Office's (not Controller Office's) documents and were deleted immediately after discussion with the audit team. One of the three other questioned activities identified later (see Exhibit I) was not an administrative reservation or obligation but also represented a plan, e.g., a sub-sector assessment of ways to increase the efficiency of Guatemala's primary education system. Furthermore, while the latter activity was approved by Mission Management at a planning level of $500,000, it was subsequently reduced to a planning level of $300,000 to comply with earlier LAC Bureau guidance (April, 1987). However, this agreed upon change with the Office of Human Resources was not reflected on the Program Office's PD&S Status Report in July but instead appeared on the August report. This reporting error was carefully explained to the auditors in an earlier Mission review of their findings, but they have refused to delete this item from their report even though they admitted themselves that it was in compliance with the latest LAC Bureau guidance (State 250606). The remaining two other questioned activities (valued at $25,000) were found to be in compliance with

the latest LAC Bureau guidance (see State 250606 which is far more restrictive than earlier informal or other guidance) by the audit team, and funds were administratively reserved and obligated for only one of them (local currency generated trust funds were used for the audit instead of PD&S funds).

Third, the Mission has never approved PD&S funds to supplement Mission operating expense or project assistance budgets, nor has it ever approved PD&S funds to exceed Agency and Congressionally approved budget limitations. The Mission has only approved the use of PD&S funds to cover critical contractual program support, personnel needs or for project needs support such as evaluations which were not budgeted for in the project.

Fourth, the Mission and AID/W does not agree that the intention of PD&S funds was to fund only activities that occur before the signing of the project agreement or that they should be liquidated within one year after obligation. PD&S funds do not only exist because program resources are needed outside the project context to permit non-project activities in support of the design of projects or broad sectoral assessment/strategies but also to finance pre-project assistance to accelerate project implementation such as training of participants, short-term TA, etc., to have in place immediately after project grant signature. In addition, while the Mission has always attempted to provide goods and services within a 12 month period from the date of obligation, it is not realistic to expect all funds to be liquidated within this period, e.g., all bills to be paid, etc. The latest LAC Bureau guidance (State 250606) doesn't require this either.

SPECIFIC

Complementing the general comments highlighted above, the Mission feels it is important to list a number of items mentioned in the draft report which are in error and to request that the appropriate corrections be made as follows:

PAGE(s)	COMMENT IN REPORT	REQUIRED CORRECTION
(a)		
1, 6	PD&S funding is designed to finance activities to get project underway only prior to project agreement signature.	This statement is inaccurate and should be deleted. PD&S funding can be used to fund pre-project implementation activities to accelerate project implementation after agreement is signed. See LAC Bureau PD&S guidance in State 250606 (1987).
(b)		
4, 6, 8, 9 Ex. 1	Over $750,000 of Mission's planned $2.2 million in PD&S programmed funding was reserved or obligated for activities that were not PD&S related or in compliance with Agency and LAC Bureau funding criteria.	This statement is inaccurate and should be changed. None of the Mission's planned $2.2 mi. in PD&S funding was administratively reserved or obligated for activities that were not appropriate or in compliance with AID/W or LAC Bureau guidance. All eight activities identified by the Audit Team as inappropriate uses of PD&S funding (valued at around $243,000) only represented initial approved plans and not administrative reservations or obligations. They were deleted as soon as the auditors identified them as inappropriate. However, based on the latest LAC Bureau PD&S guidance dated 8/13/87, funding was approved at the end of the fiscal year for an education advisor for the reasons indicated under item (d). The remaining three other questioned activities, with an estimated value of $525,000, were found to be in compliance with the latest LAC Bureau PD&S guidance of 8/13/87 by the audit team. Furthermore, one of them (Caefts buy-in, or sub-sector assessment in the primary education area) was erroneously reported at a $500,000 planning level when it should have been reported at a $300,000 planning level, and therefore, should not even have appeared as a questionable activity.

PAGE(s)	COMMENT IN REPORT	REQUIRED CORRECTION
(c)		
5, 6, 8 10, 11	Significant amounts of PD&S funding that were supposed to be obligated and then liquidated during a 12 month period was brought forward into future fiscal years and not liquidated until 12-36 months after the date of obligation.	This and other related statements make little sense and should be deleted or modified substantially as there is little rationale for them. Funds are obligated in the fiscal year in which they are provided and generally take more than 12 months to be liquidated (e.g., until all disbursements are made). Thus the amounts of PD&S funds being liquidated over a period of 12-36 months (most of which generally occur in the first 24 months) from date of obligation do not appear unreasonable, especially when there were contracting issues on some PD&S activities --the resolution of which prevented the liquidation of funds any earlier. Earlier referenced LAC Bureau PD&S guidance (4/87) used similar language but this was an error and the latest LAC Bureau PD&S guidance corrected it (e.g., the provision of goods and services shouldn't end later than 12 months following the obligation date).
(d)		
5, 7, 8, 9	Recommendation that Mission takes action to stop PD&S funding of 11 activities that were identified during the audit as inappropriate uses of PD&S funding.	Report should indicate that Mission has taken action to avoid PD&S funding of 7 of the 8 activities identified by the audit team as inappropriate. The exception is the personal services contract of David Losk, an education advisor, whose responsibilities were considered to be mostly of a project design and support (monitoring) nature covering a number of projects, and therefore, appropriately charged to PD&S (see Program Office memo of 11/19/86 and latest LAC Bureau guidance of 8/13/87). The remaining three other questioned activities were found to be in compliance with the latest LAC Bureau guidance of 8/13/87 by the audit team and the report should indicate this.

PAGE(s)	COMMENT IN REPORT	REQUIRED CORRECTION
(e)		
6, 12	Past vague PD&S guidance had allowed for overly broad interpretations of what PD&S funding could be used for and resulted in unintended uses.	The statement is not fully accurate and needs to be modified. While it is true that past AID/W and LAC Bureau guidance was very general, applicable PD&S uses were known and we know of no case where PD&S funding resulted in unintended uses.
(f)		
7, 8, 11, 13	The Mission's use of PD&S funding to supplement Mission operating expense budgets and project financial plans had effectively allowed the Mission to exceed AID and Congressionally approved budget limitations.	The statement is inaccurate and needs to be deleted. While there has been a decrease in the Mission's operating expense budget, over the past few years the Mission has not used PD&S funding to offset this reduction in OE. The Mission has never exceeded AID or Congressionally approved budget limitations.
(g)		
9	The primary purpose of a PD&S funded limited scope agreement between the Mission and the Government of Guatemala's National Economic Planning Council (SEGEPLAN) was to provide the Mission with funds to buy a personal computer system and not to provide "Training Assistance Support".	This statement is inaccurate and should be deleted. The Mission agreed to procure an urgently needed computer for SEGEPLAN to assist it in strengthening its capacity to plan for, coordinate and evaluate the country's many participant training programs with AID.

PAGE(s)	COMMENT IN REPORT	REQUIRED CORRECTION
(h)		
10	The report indicates that the auditors found instances where PD&S funds were programmed as a project funding subsidy to finance evaluations and audits that: (a) were required and budgeted for in the project agreement; (b) were not required nor budgeted for in the project agreement; or (c) were required but not budgeted for in the project agreement.	This Mission has no problem with part (a) under this statement, upon which it agreed to delete a number of items, but parts (b) and (c) are both acceptable reasons for the use of PD&S funding and recommends that the report reflect this in its comments or delete any reference to them.
(i)		
12	By using PD&S funds to supplement Mission operating expense budgets and project assistance financial plans, less PD&S funding was available for intended purposes.	As indicated earlier, this statement is inaccurate and should be deleted. First, PD&S funds were not used in this way, and secondly, a sufficient amount of PD&S funds was always available for intended purposes.
(j)		
12, 13, 14, 15	A lack of formal guidance by AID or the LAC Bureau until 4/87 resulted in the Mission interpreting allowable uses of PD&S funds in various ways. Mission personnel further stated that PD&S activities were often selected on an informal basis without written justifications.	These and other related statements are inaccurate and require modification. As indicated earlier under general comments, general guidance, while not formalized, was available from AID/W and the LAC Bureau on the applicable uses of PD&S funds. In addition, the Mission established its own guidance for the uses and management of PD&S funds which were well understood by everyone and did not require further interpretation. Furthermore, PD&S activities were not selected on an informal basis; Mission personnel submitted requests to the Program Office and these requests were reviewed to ensure that they were in accordance with Mission guidance.

PAGE(s)	COMMENT IN REPORT	REQUIRED CORRECTION
(k)		
14	The report indicates that Mission officials stated that since the LAC Bureau's interim policy statement did not require them to stop PD&S funding of activities that did not comply with such guidance until the end of FY 1987, no adjustments were required for activities already obligated.	This statement is inaccurate and should be deleted. First, the Mission removed immediately all the eight PD&S funded activities that the audit team found inappropriate in June 1987. It also made subsequent adjustments in other items that were not needed to be funded under PD&S even though the auditors later agreed that they were in compliance with LAC Bureau guidance. A case in point was the Mission's decision to use local currency generated trust funds for an audit of the Non-Formal Education Project No. 520-0281 rather than use PD&S funds.
(l)		
15, 17,	The report indicates in several places that Program Office personnel responsible for monitoring the Mission's PD&S account were unsure about the financial status of many of the activities because they did not always receive copies of commitment and obligation documents and because of a lack of reconciliation between the Controller's financial reports and the Program Office's status reports. Consequently the report indicates that the Program Office did not have accurate information about the availability of funds to finance new activities.	The statements are not fully accurate and require modification. The Program Office continuously made an effort to obtain up-to-date information on all PD&S activities including final approved documentation to reserve and obligate funds and conducted periodic reconciliations of information in the Controller's and Program Office's reports. As a result, the Program Office felt it had sufficiently accurate financial information on the PD&S account to reach decisions on the funding of new activities. The Program Office is also now performing monthly reconciliations based on new reporting format to ensure up-to-date financial information at all times.

PD&S GUIDELINES

New Interim PD&S Guidelines - The essence of the policy statement was that PD&S funding was to be used for those required project development and design activities that occur prior to the signing of the project agreement.

Inappropriate uses of PD&S funds outlined in the policy statement include for example, the PD&S funding of single activities greater than $300,000. These activities were to be developed into discrete projects or components of larger projects. PD&S funding was also not to be used to finance contract employees who generally perform duties and responsibilities normally assigned to U.S. and foreign national direct hire personnel. As required in Handbook 19, Chapter 11B, the salaries, benefits, and support costs (ie. allowances, travel and transportation, housing, and office expenses) of these U.S. and foreign national direct-hire personnel are to be funded with mission operating expenses. Also funded under Mission operating expenses are consultants, contractors, PASA, and RSSA personnel who are engaged primarily in Agency management and support functions. Handbook 19 also states that the costs of "...consultants, contractors, PASA, and RSSA personnel engaged in project or program implementation including feasibility studies, project design, and evaluation are project costs and are funded from program appropriations." The LAC Bureau policy statement further added that if these contractor costs are for contracts greater than a year, project rather than PD&S funding should be used to pay for the contracts costs since they are attributable costs to the project. In addition, PD&S funding was not to be used to purchase non-expendable commodities such as computer hardware and office equipment. These purchases were to be made with OE or project funds.

Evaluations and Audits - Handbook 3 as well as good project management require that AID grant and loan financed projects are evaluated and audited at regular intervals. The need for independent audits of project funds was also emphasized in Policy Statement 6 of existing AA/M Payment Verification Policy Guidance distributed worldwide in December 1983. Consequently, PD&S funds should not be used to pay for project audits and evaluations that were budgeted for in the project financial plan. Similiarly, PD&S funds should not be used as a subsidy to finance required costs that otherwise should have been budgeted for in the project's financial plan. Good project management dictates that adequate project funding be set aside in the project agreement financial plan to pay for costs of routine audits and evaluations that will occur throughout implementation and the life of the project. On August 13, 1987, final guidance on the use of PD&S funding was issued.

APPENDIX 3

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